

AR47



REALTY CAPITAL CORP LIMITED ANNUAL REPORT 1977



Realty Capital  
Corp Limited



Federal Trust  
Company

Realty Capital Corp. Limited  
is a financial services  
holding company.  
Its principal subsidiary  
is Federal Trust Company  
with 12 branch offices.

FINANCIAL HIGHLIGHTS	1977	1976	% Increase
Net operating income	\$ 436,000	\$ 377,000	16%
Net operating income per share	\$0.59	\$0.51	16%
Net income per share	\$0.33	\$0.71	(54%)
Dividends per share	\$0.20	\$0.20	—
Total assets	\$169,669,000	\$149,750,000	13%
Estates, trusts and agencies under administration	\$ 72,414,000	\$ 36,946,000	96%



---

## PRESIDENT'S REPORT



**T**he results for the year ended December 31, 1977 did not meet expectations. Although total assets increased by 13% from \$149,750,000 to \$169,669,000 and net operating income increased by 16% from \$377,000 to \$436,000, net income declined from \$349,000 in 1976 (before extraordinary gain) to \$245,000. Income was affected by provisions made against possible mortgage losses and losses incurred

on a real estate venture in the Province of Quebec.

Positive steps were taken in 1977 which will benefit future earnings. Federal Trust Company successfully negotiated the private placement of a \$2 million preferred share issue. This new capital was received in March 1978 and will enable the Trust Company to continue its deposit growth. Agreement was reached in 1977 on the sale of two parcels of land owned

by Warchester Investments with closing dates scheduled in 1978. The net profit on these sales will be reflected in 1978.

In 1977 the Mortgage Banking Department recorded its most successful year. Mortgages totalling \$24 million were placed with investors and the servicing of those loans retained by the Company. In addition Fedco Mortgage Investment Company began operations in July with a capital

base slightly in excess of \$3 million. The shareholders include a number of sizeable Canadian Pension Funds. Federal Trust Company is a minority shareholder and acts as Advisor. In this latter capacity it provides day to day management of the Company including providing mortgage investments and the sale of Fedco debentures through Federal Trust branch offices. The Mortgage and Bond Fund, also managed by Federal Trust has shown excellent growth with the net asset value increasing from \$994,000 at the end of 1976 to \$6,104,000 by the end of February 1978. Federal Trust provides mortgages for this fund and units are sold through its branch offices.

Additional costs were incurred in 1977 with the conversion to our in-house computer. This was a result of running both old and new systems simultaneously. The Company is now in a position where the major conversions have been completed and the majority of front end costs have been incurred. All financial service branches except Welland and Ottawa are now on-line for demand deposits with term deposits presently being converted. The Company has also converted all of its mortgages to the new system. By the middle of 1978 all of the major services of the company will be on-line.

#### **Economic outlook**

Interest rates reduced substantially at the end of 1976, but have remained stable since the beginning of 1977. Although there has been a general upward pressure on most rates in the last few months, this has not yet been reflected in mortgage rates due primarily to an excess of mortgage funds over demand. I foresee a moderate rise in rates in the next few months with the possibility of a larger increase towards the end of the year because of huge demands placed on

the market by all Governments. Higher rates will be required in Canada to obtain foreign funds necessary to cover our balance of payments deficit. In addition it is likely that some pipeline financing will start to appear later this year.

The country is presently plagued with high unemployment and inflation. It is hoped that Governments will pursue long term policies to correct this situation and avoid decisions that are political in nature and provide only short term gains.

#### **Company outlook**

1977 was devoted primarily to consolidation and improving administration. These objectives have been met and I therefore anticipate a much improved year in 1978. The completion of the preferred share issue will enable Federal Trust to aggressively seek deposits which should result in increased net interest income. I am also expecting another good year in mortgage banking, management and administration. Operating costs will continue to be controlled and branch expansion will be restricted to the opening of a mortgage office in Kitchener, Ontario. The completion of the major computer conversions and the reduction of costs in the real estate sales department will also assist in this regard.

#### **Organization**

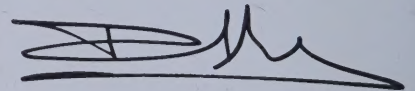
I am pleased to welcome to the Company Mr. James Burrows as Internal Auditor, to replace Mr. Gordon Parr who has recently retired, Mr. Donald J. Cotie as Comptroller, Mr. William G. Durst as Residential Mortgage Manager, and Mr. Brian McConnell as Treasurer. In addition, the following promotions were made: Mr. Nick Capobianco to Credit Manager and Mrs. Patricia Fanning to Personnel Manager. The following branch managers were appointed during the year: Mr. William Barrow, Mr.

William Colby and Mr. Andrew Steele.

#### **In appreciation**

On behalf of the Board of Directors I express warm thanks to all our people for their conscientious efforts in 1977. These men and women are the foundation for the Company's future.

My thanks are also extended to all shareholders for their support and I hope they will continue to make use of our broad range of financial services.



David S. Ades  
President and Chief Executive Officer  
March 14, 1978



---

## CORPORATE DIRECTORY

### REALTY CAPITAL CORP. LIMITED

#### Directors

\*David S. Ades, B.Sc., A.M.C.T.  
*President  
Realty Capital Corp. Limited  
Federal Trust Company*

Jeanne Ades

\*Leonard E. Barlow,  
*Senior Vice-President  
McLeod, Young, Weir & Company  
Limited, Toronto*

Roger I. Coe, C.A.  
*Vice-President and Secretary  
Realty Capital Corp. Limited  
Federal Trust Company*

Pierre Genest, Q.C.  
*Partner  
Cassels, Brock, Toronto*

\*Peter Mackenzie,  
*Director  
Cadillac Explorations Limited,  
Calgary*

\*Wilfred J. Wilson,  
*Senior Vice-President  
Teachers' Insurance and Annuity  
Association of America and  
College Retirement Equities Fund,  
New York*

\*Audit Committee

#### Officers

*(Realty Capital and Federal Trust)*

\*David S. Ades, B.Sc., A.M.C.T.  
*President*

\*Roger I. Coe, C.A.  
*Vice-President, Finance,  
and Secretary*

\*Consiglio Di Nino,  
*Vice-President, Operations*

\*Peter Nygard,  
*Vice-President, Mortgages*

\*M. Rowe Dinney,  
*Special Advisor to the President*

Donald J. Cotie,  
*Comptroller*

Brian McConnell,  
*Treasurer*

\*Executive Committee

#### Advisory Boards Brampton

J. Robert Kelly, *Chairman  
Barrister and Solicitor*

William Raine  
*Retired Peel County Sheriff*

Doug Dunton  
*Retired Holstein Breeder*

**Ottawa**  
Philip D. Smith  
*Management Consultant*

#### Department Managers

Brian L. Birket,  
*Computer Systems*

James A. Burrows,  
*Internal Audit*

Nick Capobianco,  
*Credit*

Donald J. Cotie,  
*Comptroller*

Sheila Dee,  
*Retirement Savings Plans*

Patricia J. E. Fanning,  
*Personnel*

Paul R. Graham,  
*Deferred Profit Sharing Plans*

Robert E. Janzen,  
*Mortgage Administration*

Laurence A. Mills,  
*Securities*

William R. Ryan  
*Mortgages*

Tammy M. H. Smith,  
*Marketing*

**Auditors**  
Price Waterhouse & Co.,  
*Chartered Accountants, Toronto*

**Trustees and Transfer Agents**  
Federal Trust Company  
*Common Shares*

Guaranty Trust Company of Canada  
*Series A Debentures*

Montreal Trust Company  
*Class A Shares, Series C and F Warrants*

#### Bankers

Royal Bank of Canada  
Canadian Imperial Bank of  
Commerce

#### Legal Counsel

Cassels, Brock  
*Barristers and Solicitors,  
Toronto*

Pouliot, Mercure, Le Bel,  
Prud'Homme, Verdy & Desrochers  
*Advocates, Barristers and Solicitors,  
Montreal*

#### Stock Exchange Listing

Toronto Stock Exchange  
*Class A Shares, Series C and  
F Warrants*

### FEDERAL TRUST COMPANY

#### Directors

\*David S. Ades, B.Sc., A.M.C.T.  
*President  
Realty Capital Corp. Limited  
Federal Trust Company*

Roger I. Coe, C.A.  
*Vice-President and Secretary  
Realty Capital Corp. Limited  
Federal Trust Company*

Consiglio Di Nino,  
*Vice-President  
Realty Capital Corp. Limited  
Federal Trust Company*

\*Donald C. Early,  
*Greenshields Incorporated, Toronto*

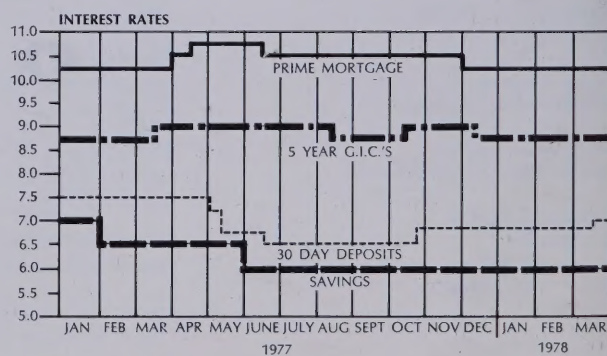
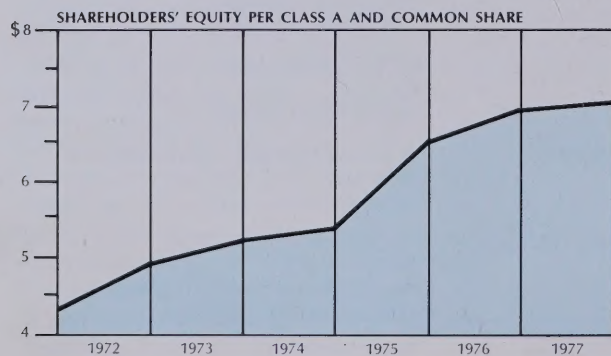
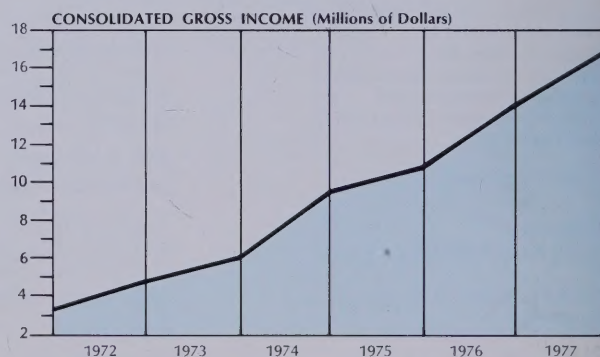
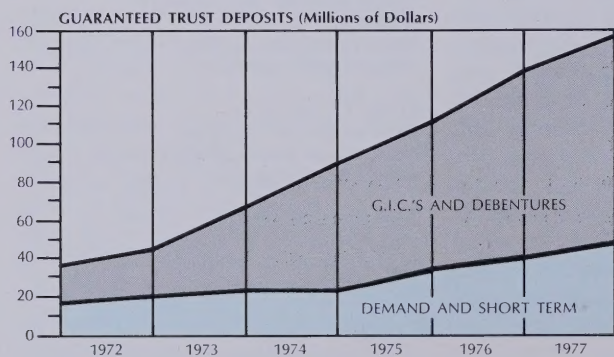
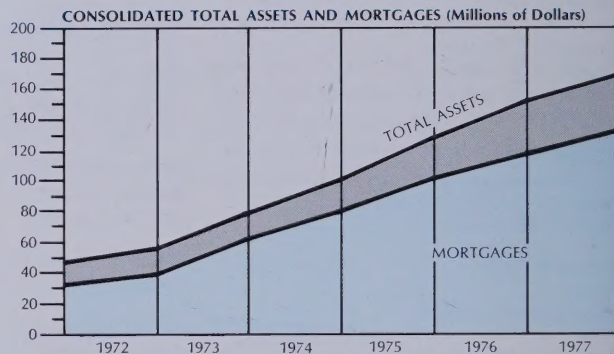
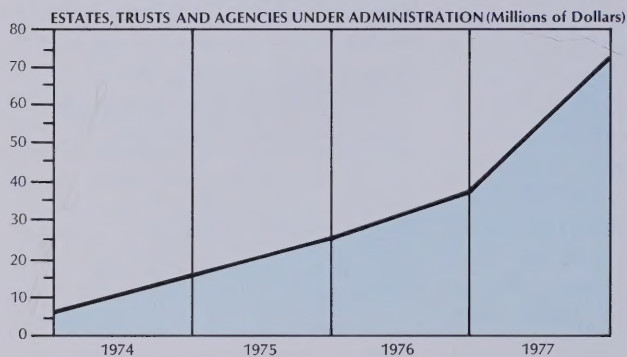
\*Seymour Friedland,  
*Ph.D.  
Professor of Economics  
York University, Toronto*

Pierre Genest, Q.C.  
*Partner  
Cassels, Brock, Toronto*

\*Alderman Joseph J. Piccininni  
*Alderman  
City of Toronto*

\*Georges A. Pouliot, Q.C.  
*Partner  
Pouliot, Mercure, Le Bel, Prud'Homme,  
Verdy & Desrochers, Montreal*

\*Audit Committee





## EIGHT YEAR SUMMARY

(in thousands of dollars except per share figures)

### Realty Capital (Consolidated)

	1977	1976	1975	1974	1973	1972	1971	1970
Gross income .....	\$ 16,962	\$ 14,203	\$ 11,809	\$ 9,528	\$ 6,067	\$ 4,755	\$ 3,340	\$ 1,208
Interest expense .....	12,425	10,304	8,463	6,514	3,549	2,451	1,859	585
	4,537	3,899	3,346	3,014	2,518	2,304	1,481	623
Operating expenses .....	4,098	3,481	3,073	2,370	1,864	1,246	1,000	450
Net income before taxes .....	439	418	273	644	654	1,058	481	173
Income taxes .....	3	41	73	269	291	495	225	94
Net operating income .....	436	377	200	375	363	563	256	79
Investment gains (losses) .....	(191)	(28)	(2)	1	28	34	102	2
Extraordinary item .....	—	177	739	—	—	45	—	—
Net income .....	\$ 245	\$ 526	\$ 937	\$ 376	\$ 391	\$ 642	\$ 358	\$ 81
Return on average shareholders' equity	4.7%	10.8%	20.8%	9.6%	10.8%	23.2%	18.4%	4.5%
Shareholder items (per Class A share)								
Net operating income .....	\$ 0.59	\$ 0.51	\$ 0.27	\$ 0.51	\$ 0.51	\$ 0.89	\$ 0.53	\$ 0.20
Net income .....	0.33	0.71	1.27	0.51	0.55	1.02	0.74	0.20
Dividends .....	0.20	0.20	0.20	0.30	0.30	0.20	0.20	0.20
Equity* .....	7.03	6.89	6.38	5.31	5.10	4.88	4.31	3.77
Market price								
High .....	4.20	3.40	3.80	4.75	7¾	7.50	3.85	2.85
Low .....	2.75	2.45	2.00	2.45	3.85	3.50	2.20	1.70
December 31 .....	3.50	2.75	2.40	2.65	4.00	6½	3.40	2.10
Price/earnings multiple** .....	5.9	5.4	8.9	5.2	7.8	6.9	6.4	10.5
Other data*								
Total assets .....	\$169,669	\$149,750	\$125,740	\$ 99,780	\$ 77,519	\$ 53,356	\$ 44,389	\$ 15,559
Estates, trusts and agencies under administration .....	\$ 72,414	\$ 36,946	\$ 24,846	\$ 15,400	\$ 6,193	—	—	—
Number of shares outstanding:								
Class A .....	562,514	562,514	562,514	562,514	561,455	533,946	306,375	306,375
Common .....	174,400	174,400	174,400	174,400	174,400	174,400	174,400	174,400
Number of Class A shareholders ....	761	761	816	838	818	764	385	

\*At December 31.

\*\*Based on net operating income and market price at December 31.

### Federal Trust\*

	1977	1976	1975	1974	1973	1972	1971	1970
Balance Sheet:								
Total assets .....	\$167,284	\$149,497	\$118,077	\$ 90,270	\$ 70,693	\$ 46,524	\$ 37,734	\$ 32,995
Deposits .....	157,357	137,874	110,122	86,064	63,817	42,677	34,413	29,764
Estates, trusts and agencies under administration .....	72,414	36,946	24,846	15,400	6,193	—	—	—
Earnings:								
Gross income .....	16,804	13,759	11,090	8,332	5,404	3,847	3,343	2,881
Net operating income .....	401	324	300	155	293	266	152	38

\*Federal Trust Company was formed as a result of amalgamations in 1972 and 1974, between County Savings and Loan Corporation, Federal Savings and Loan Corporation and Federal Trust & Savings Company. The above table reflects the position as it would have been if the corporation had been amalgamated for the full eight year period.



# REALTY CAPITAL CORP LIMITED - CONSOLIDATED BALANCE SHEET

ASSETS	December 31	
	1977	1976
Cash and bank deposit receipts .....	\$ 10,218,000	\$ 5,171,000
Corporate notes and dealers' call loans .....	—	1,526,000
Investment income due and accrued .....	2,382,000	2,307,000
Securities (Note 2):		
Bonds .....	5,366,000	5,401,000
Stocks .....	6,796,000	3,909,000
	<u>12,162,000</u>	<u>9,310,000</u>
Loans:		
Mortgages .....	129,941,000	115,784,000
Consumer and other .....	4,583,000	6,674,000
	<u>134,524,000</u>	<u>122,458,000</u>
Real estate (Note 3):		
Rental properties held for sale .....	3,573,000	1,293,000
Held for development or sale .....	3,034,000	2,783,000
	<u>6,607,000</u>	<u>4,076,000</u>
Investment in and advances to joint ventures (Note 4) .....	989,000	953,000
Other (Note 5) .....	1,171,000	2,583,000
Premises, leasehold improvements and equipment (Note 6) .....	1,616,000	1,366,000
	<u>\$169,669,000</u>	<u>\$149,750,000</u>

APPROVED BY THE BOARD:

David S. Ades, Director

Roger I. Coe, Director



## LIABILITIES

	December 31	
	1977	1976
Guaranteed trust deposits (Note 7):		
Demand .....	\$ 38,869,000	\$ 32,337,000
Term .....	9,541,000	8,442,000
Guaranteed investment certificates and debentures .....	102,225,000	91,858,000
Interest due and accrued .....	6,768,000	5,237,000
	<u>157,403,000</u>	<u>137,874,000</u>
Accounts payable and other .....	1,207,000	1,233,000
Income taxes payable .....	384,000	—
Bank loans .....	890,000	172,000
Mortgages payable (Note 8) .....	963,000	1,023,000
Long term debt (Note 9) .....	3,170,000	3,335,000
	<u>6,614,000</u>	<u>5,763,000</u>
Deferred income taxes .....	474,000	1,033,000
SHAREHOLDERS' EQUITY		
Capital stock (Note 10) .....	2,524,000	2,524,000
Contributed surplus .....	8,000	8,000
Retained earnings .....	2,646,000	2,548,000
	<u>5,178,000</u>	<u>5,080,000</u>
	<u>\$169,669,000</u>	<u>\$149,750,000</u>

## AUDITORS' REPORT

To the Shareholders of  
Realty Capital Corp. Limited:

We have examined the consolidated balance sheet of Realty Capital Corp. Limited as at December 31, 1977 and the consolidated statements of income, retained earnings and changes in cash position for the year then ended. Our examination was made in accordance with generally ac-

cepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally

accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.  
Chartered Accountants

Toronto  
February 28, 1978



# REALTY CAPITAL CORP LIMITED – CONSOLIDATED STATEMENT OF INCOME

	Year ended December 31	
	1977	1976
Income:		
Securities, including short term investments	\$ 1,571,000	\$ 1,228,000
Mortgages	13,367,000	11,233,000
Consumer and other loans	648,000	671,000
Profit (loss) on real estate	(113,000)	35,000
Real estate sales commissions	395,000	328,000
Fees, commissions and other	1,094,000	708,000
	<u>16,962,000</u>	<u>14,203,000</u>
Expenses:		
Interest on —		
Guaranteed trust deposits	12,210,000	10,018,000
Bank loans	61,000	110,000
Long term debt	154,000	176,000
	<u>12,425,000</u>	<u>10,304,000</u>
Salaries and staff benefits	1,846,000	1,572,000
Real estate sales commissions	219,000	180,000
Premises	695,000	661,000
Other operating	1,338,000	1,068,000
	<u>16,523,000</u>	<u>13,785,000</u>
Operating income before taxes	439,000	418,000
Income taxes (Note 11):		
Current	418,000	47,000
Deferred	(415,000)	(6,000)
	<u>3,000</u>	<u>41,000</u>
Net operating income	436,000	377,000
Net loss on investments (including provision for possible losses) after related income taxes of \$159,000 (1976 — \$38,000)	(191,000)	(28,000)
Net income before extraordinary gain	245,000	349,000
Gain on sale of premises less income taxes of \$65,000	—	177,000
Net income for the year	<u>\$ 245,000</u>	<u>\$ 526,000</u>
Earnings per Class A and Common share (Note 12):		
Net operating income	\$ 0.59	\$ 0.51
Net income before extraordinary gain	\$ 0.33	\$ 0.47
Net income for the year	\$ 0.33	\$ 0.71
Fully diluted before extraordinary gain	\$ 0.32	



## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31	
	1977	1976
Balance at beginning of year .....	\$2,548,000	\$2,169,000
Net income for the year .....	245,000	526,000
	<u>2,793,000</u>	<u>2,695,000</u>
Dividends:		
Class A shares (20 cents per share) .....	112,000	112,000
Common shares (20 cents per share) .....	35,000	35,000
	<u>147,000</u>	<u>147,000</u>
Balance at end of year .....	<u>\$2,646,000</u>	<u>\$2,548,000</u>

## CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION

	Year ended December 31	
	1977	1976
<b>SOURCES OF CASH</b>		
Operations* .....	\$ 151,000	\$ 506,000
Proceeds on real estate, net of profit (loss) included in operations .....	2,078,000	63,000
Proceeds on sale of premises, net of income taxes .....	—	420,000
Increase in guaranteed trust borrowings .....	17,998,000	26,463,000
Increase in bank loans .....	718,000	—
	<u>20,945,000</u>	<u>27,452,000</u>
<b>APPLICATIONS OF CASH</b>		
Increase in securities and short term investments .....	1,326,000	1,405,000
Increase in loans .....	12,066,000	21,293,000
Additions to real estate:		
Rental properties held for sale .....	3,017,000	1,293,000
Held for development or sale .....	251,000	247,000
Additions to premises, leasehold improvements and equipment .....	406,000	239,000
Decrease in bank loans .....	—	3,098,000
Payments on long term debt .....	165,000	790,000
Dividends .....	147,000	147,000
Net other .....	(1,480,000)	868,000
	<u>15,898,000</u>	<u>29,380,000</u>
Increase (decrease) in cash for the year .....	5,047,000	(1,928,000)
Cash and bank deposit receipts at beginning of year .....	5,171,000	7,099,000
Cash and bank deposit receipts at end of year .....	<u>\$10,218,000</u>	<u>\$ 5,171,000</u>

\*Represents net income before extraordinary gain for the year after adjustments for depreciation, amortization of financing expenses, provision for possible losses on investments, and deferred income taxes (1977 - \$94,000; 1976 - \$157,000).



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Principles of consolidation —

The consolidated financial statements include the accounts of Realty Capital Corp. Limited and all of its subsidiary companies as listed below:

Company	Ownership	
	1977	1976
Federal Trust Company .....	99%	99%
Warchester Investments Limited ..	99%	99%
Sutton-Davis Estates North Inc. ..	99%	99%
Du Barry Development Inc. ....	99%	50%

Acquisitions are accounted for using the purchase method of accounting. The minority interests, which are not material, have been included with accounts payable on the balance sheet and operating expenses in the statement of income.

#### (b) Securities —

Stocks are carried at original cost and bonds at amortized cost. Where concurrent purchase and sale contracts of equal value are made for bonds of a similar investment quality, no gain or loss is recognized on the date of sale. The difference between the book value and the market value of the bonds sold is amortized over the lesser of the term to maturity of the bonds sold and purchased.

#### (c) Mortgages —

Mortgages are stated at their outstanding amount less unamortized discount and placement fees. Any amounts paid to maintain the Company's interest in the underlying security are included in the mortgage principal. Discount and placement fees are amortized on a straight-line basis over the terms of the mortgages. Provision for possible losses is made as required.

Mortgages taken back on the sale of real estate are discounted to yield current market rates and the discounts are amortized over the terms of the mortgages.

#### (d) Consumer and other loans —

Provision for losses on loans is made as required. Interest income on consumer loans is amortized over the terms of the loans using the sum of the digits method. On all other loans, interest is recorded on an accrual basis.

#### (e) Real estate —

Real estate is valued at the lower of cost and estimated net realizable value. Cost includes direct development and construction costs and direct carrying charges, such as mortgage interest, property taxes, professional fees and other related costs. Also included are general and administrative expenses and interest on general borrowings considered applicable.

For rental properties held for sale, cost also includes net rental losses or gains until time of sale. Where properties are acquired by foreclosure, cost includes the mortgage receivable balance, accrued interest thereon and amounts paid to maintain the Company's position therein to the date title is acquired.

#### (f) Joint ventures —

These investments are recorded using the equity accounting basis.

#### (g) Deferred expenses —

Certain expenses, included in other assets, are deferred to provide proper matching of revenue and expenses. The significant items are:

- (i) Financing costs, including commissions, are written off over the terms of the related debt.
- (ii) Certain computer systems costs are written off over a period of 5 years from the implementation date of such systems.

#### (h) Premises, leasehold improvements and equipment —

Premises, leasehold improvements and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided to write off assets over their estimated useful lives as follows:

Buildings .....	2½% straight-line
Leasehold improvements .....	over the remaining term of the lease plus first option period
Equipment .....	20% reducing balance
Computer equipment .....	over 7 years straight-line

#### (i) Income taxes —

Full provision for income taxes is made in the financial statements using the tax allocation method, whereby income taxes related to timing differences are included in deferred income taxes. Timing differences arise as a result of including certain items of income and expense in one reporting period for financial accounting purposes and another for income tax purposes.



## 2. SECURITIES

Cost and market values, at December 31, are:

	1977		1976	
	Cost	Market	Cost	Market
Bonds —				
Government of Canada	\$ 1,057,000	\$ 970,000	\$ 1,096,000	\$ 1,013,000
Provinces of Canada	3,111,000	2,702,000	2,937,000	2,585,000
Municipalities	35,000	31,000	35,000	30,000
Corporations	1,163,000	1,011,000	1,333,000	1,128,000
	<u>5,366,000</u>	<u>4,714,000</u>	<u>5,401,000</u>	<u>4,756,000</u>
Stocks —				
Preferred	6,460,000	6,509,000	3,462,000	3,347,000
Common	336,000	281,000	447,000	346,000
	<u>6,796,000</u>	<u>6,790,000</u>	<u>3,909,000</u>	<u>3,693,000</u>
	<u>\$12,162,000</u>	<u>\$11,504,000</u>	<u>\$9,310,000</u>	<u>\$8,449,000</u>

## 3. REAL ESTATE

During 1977, carrying costs in the amount of \$310,000 were capitalized to rental properties held for sale (1976 — \$29,000) and carrying costs in the amount of \$251,000 were capitalized to real estate held for development or sale (1976 — \$247,000).

## 4. INVESTMENT IN AND ADVANCES TO JOINT VENTURES

At December 31, 1977, the investment in and advances to joint ventures is represented by the following:

10% undivided interest in 415 Yonge Street —		
Land .....		\$237,000
Building .....	\$779,000	
Less: Accumulated depreciation .....	70,000	709,000
9¼% mortgage payable up to August 1, 2001 .....		(631,000)
Equity position in joint venture		
At December 31, 1976 .....	12,000	
Share of 1977 profits .....	2,000	14,000
		<u>329,000</u>
Other investments in and advances to corporate joint ventures —		
Real estate		
Rental properties .....	106,000	
Held for development .....	158,000	
	<u>264,000</u>	
Mortgages receivable .....	236,000	
Advances .....	230,000	
Other net liabilities .....	(8,000)	
Mortgages payable .....	(62,000)	660,000
		<u>\$989,000</u>

## 5. OTHER ASSETS

(a) Included in other assets, at December 31, are the following items:

	1977	1976
Investment in Fedco Mortgage Investment Company .....	\$ 304,000	\$ —
Investment in Federal Trust Company Managed Funds .....	—	100,000
Deferred expenses .....	460,000	449,000
Income taxes recoverable .....	—	10,000
Joint ventures under realization .....	—	1,896,000
Other .....	407,000	128,000
	<u>\$1,171,000</u>	<u>\$2,583,000</u>

(b) At December 31, 1976, the Company was negotiating the termination of two 50% owned corporate joint ventures. Its investment at that time was comprised of the following:

Investment in and advances to two 50% owned corporate joint ventures .....	\$ 351,000
Mortgage loans secured by property owned by one of the corporate joint ventures —	
First mortgages, N.H.A. insured .....	1,123,000
Second mortgage .....	422,000
	<u>\$1,896,000</u>

During 1977, the Company wrote off its nominal investment in one joint venture and acquired the remaining common shares of Du Barry Development Inc. for \$1.00. Details of the net liabilities assumed (representing 50%) are as follows:

Mortgages payable .....	\$1,313,000
Other net liabilities .....	313,000
Rental properties held for sale .....	1,496,000
Balance, representing net liabilities assumed, written off in 1977 .....	<u>\$ 130,000</u>

## 6. PREMISES, LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Book values, at December 31, are:

	1977		1976	
	Cost	Accumulated depreciation & amortization	Net	Net
Land .....	\$ 243,000	\$ —	\$ 243,000	\$ 243,000
Buildings .....	531,000	108,000	423,000	426,000
Leasehold improvements ...	800,000	296,000	504,000	538,000
Equipment .....	779,000	333,000	446,000	159,000
	<u>\$2,353,000</u>	<u>\$737,000</u>	<u>\$1,616,000</u>	<u>\$1,366,000</u>

Depreciation and amortization charged against operations amounted to \$151,000 in 1977 and \$111,000 in 1976. Mortgages payable totalling \$199,000 are secured against land and buildings.

## 7. GUARANTEED TRUST DEPOSITS

This represents the borrowings of Federal Trust Company. The consolidated balance sheet, at December 31, includes assets which, in compliance with the requirements of the Loan and Trust Corporations Act, are earmarked and set aside to guarantee repayments of the trust deposits as follows:

	1977	1976
Cash, bank deposit receipts, corporate notes and dealers' call loans .....	\$ 11,344,000	\$ 6,415,000
Securities .....	9,708,000	7,630,000
Loans .....	132,623,000	120,484,000
Other .....	4,591,000	7,745,000
	<u>\$158,266,000</u>	<u>\$142,274,000</u>

## 8. MORTGAGES PAYABLE

The mortgages payable are secured by specific charges on real estate held for development or sale and the Company's branch premises.



They bear interest at rates between 8% and 10½ % and call for principal repayments as follows:

1978 .....	\$107,000
1979 .....	49,000
1980 .....	807,000
	<u>\$963,000</u>

## 9. LONG TERM DEBT

Long term debt of \$3,170,000 (1976 — \$3,335,000) consists of 9¼ % sinking fund debentures, Series A, due July 3, 1993.

The Trust Indenture securing the sinking fund debentures Series A contains, among other things, restrictions as to the issuing of additional debentures and of other secured debt and on paying dividends. The Company has covenanted to pay by way of a mandatory sinking fund, sums sufficient to retire \$165,000 principal amount of debt on or before July 3 in each of the years 1978 to 1993 inclusive.

## 10. CAPITAL STOCK

- (a) Details of authorized and issued capital at December 31:

Authorized —		
2,000,000 cumulative (20%) non-voting participating Class A shares without par value		
360,000 common shares without par value		
	<b>1977</b>	<b>1976</b>
Issued —		
562,514 Class A shares .....	<b>\$2,190,000</b>	\$2,190,000
174,400 common shares .....	<b>334,000</b>	334,000
	<u><b>\$2,524,000</b></u>	<u>\$2,524,000</u>

- (b) At December 31, 1977 share warrants were outstanding entitling the holders to acquire one Class A share for each warrant held as follows:

	Exercisable to	Exercise price	Class A Shares reserved for exercise
Series C	February 15, 1979 .....	\$5.00	155,000
	(July 3, 1978 .....	6.25)	
Series F	(July 3, 1983 .....	7.75)	175,000
			<u>330,000</u>

## 11. INCOME TAXES

The Company's income tax provisions are lower than the prevailing corporate tax rate because the statement of income includes certain non-taxable earnings.

## 12. EARNINGS PER SHARE

The earnings per share figures are calculated using the weighted monthly average number of shares outstanding during the respective years. Fully diluted

earnings per share reflect the result as if all share warrants with dilutive effects outstanding at the end of the period had been exercised at the beginning of the period. For the purpose of these calculations earnings of \$93,000 have been imputed at an after-tax rate of 5%.

## 13. OTHER INFORMATION

- (a) Mortgages —

Outstanding commitments for future advances amounted to approximately \$19,900,000 at December 31, 1977.

- (b) Leases —

Under lease commitments expiring over the next ten years, the Company is committed to annual rental payments of \$368,000.

- (c) Federal Trust Company Mortgage and Bond Fund  
If redemptions from this managed fund exceed cash available to meet redemptions, Federal Trust Company has undertaken to find a purchaser for such number of mortgages as will realize the required cash. As at December 31, 1977 the Fund held mortgages valued at \$3,439,000.

- (d) Directors' and senior officers' information —

The aggregate remuneration paid or payable by the Company and its subsidiaries to directors and senior officers (as defined by The Business Corporation Act, Ontario) amounted to \$300,000 in 1977 and \$316,000 in 1976.

In December, 1977 a subsidiary company sold its interest in three similar apartment buildings. One of these was sold jointly to two directors, one of whom is also an officer, for a price comparable to that realized on each of the other two buildings. As part of the sales arrangements the directors assumed a mortgage held by a subsidiary company in the amount of \$557,000. As at December 31, 1977 this mortgage was still outstanding but arrangements have now been made to sell the mortgage to an independent third party.

- (e) Comparative figures —

For comparative purposes certain 1976 accounts have been reclassified to conform with classifications adopted in 1977.

## 14. SUBSEQUENT EVENT

Under By-law Number 8 confirmed by Order-in-Council dated February 22, 1978, the authorized capital stock of Federal Trust Company was increased by 100,000 floating rate, cumulative, retractable, redeemable preference shares of the par value of \$20 each. Federal Trust is presently negotiating the issue of these shares by private placement.



---

## MORTGAGE BANKING

During 1977 the Company expanded its activity in the mortgage banking area, where mortgage loans are originated for sale to investor clients.

Loans totalling \$24 million were placed with our many investors, both domestic and foreign. This activity provides both an immediate and

ongoing source of income and it is our intention to continue planned expansion in this area.





---

## REVIEW OF OPERATIONS

### STRUCTURE OF REALTY CAPITAL GROUP

---

#### **Realty Capital Corp. Limited**

99.6%

#### **Federal Trust Company**

100%

---

#### **Warchester Investments Limited**

---

### FEDERAL TRUST COMPANY

#### **Mortgage Loans**

This area continues to constitute the main thrust of the Company's activities. Total mortgage commitments in 1977 were at a record of \$65 million. Mortgages totalling \$24 million were placed with both domestic and foreign investor clients. Besides the direct revenues obtained from the sale of these mortgages, the Company is able to retain the servicing of these loans to provide an on-going fee income.

At December 31, 1977, 80% of the total in-house mortgage portfolio was invested in residential mortgages. It is Company policy to maintain this ratio. In addition 93% of the total portfolio is in Ontario. In 1977 mortgage accounting was transferred to the new computer so that more meaningful and current information is now available on this rapidly growing portfolio.

At the end of the year the Company owned a number of rental properties acquired through foreclosure. The estimated market value of these properties, all of which are located in Quebec, is in excess of the book value of \$2,289,000. It is anticipated that they will all be sold in 1978.

In 1978 a new mortgage office was opened in Kitchener to add to our present locations in Toronto and Ottawa. This will give the company representation in Western Ontario. The Company recently implemented, on a trial basis, a policy of offering "open privileges" on conventional single family residential mortgages.

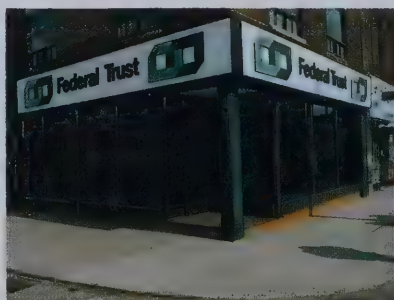
This has been extremely well received.

#### **Personal Loans**

New loans booked in 1977 totalled \$5,273,000. Due to heavy payouts during the year the portfolio of consumer and demand loans declined from \$6,072,000 at the end of 1976 to \$4,583,000 at the end of 1977. It is anticipated that good growth will be achieved in 1978 with continued emphasis placed on the quality of credit.

#### **Financial Service Branches**

The Company's eleven branches provide a full range of financial services. The eight branches in Metropolitan Toronto and the one in Brampton are on-line for chequing and savings deposits. The Company is presently in the process of transferring all term deposits including guaranteed investment certificates to the on-line computer system. This will considerably improve service to customers and enable us to provide a certificate at the time of purchase.



In addition to guaranteed trust deposits the branches offer to the public debentures of Fedco Mortgage Investment Company, units of the Federal Trust Mortgage and Bond Fund, Registered Retirement Savings Plans, Registered Home Ownership Savings Plans and Deferred Profit Sharing Plans. All showed good growth in 1977. They also provide a full range of lending services including personal loans, loans to small to medium sized businesses and mortgage loans.

#### **Real Estate Sales**

Although gross sales commissions increased in 1977 from \$328,000 to \$395,000 the division suffered a net operating loss. For this reason and because of the present outlook for the industry it was decided to close most of the department. We will continue to sell industrial, commercial and investment properties through our Head Office branch.

#### **Estate, Trusts and Agencies under Administration**

Total assets under administration increased by 96% to \$72,414,000 at the end of 1977. Of this amount, Registered Retirement Savings Plans increased by \$5,271,000 to \$10,470,000, the Mortgage and Bond Fund and Fedco Mortgage Investment Company by \$8,179,000 to \$9,175,000 and total mortgages under administration by \$22,019,000 to \$52,770,000.

Federal Trust organized the incorporation of Fedco Mortgage Investment Company which commenced operations in July 1977 with a capital base slightly in excess of \$3 million. Fedco is presently permitted under the Loan Companies Act (Canada) to borrow up to five times its capital base. The shareholders of the Company include a number of sizeable Canadian pension funds with Federal Trust Company as a minority shareholder and Advisor. All mortgage investments are originated by Federal Trust and debentures are sold through its branch offices and its agents. The strategy of Fedco is to match as closely as possible the term of its investments to the term of its debt.

As mentioned previously the Federal Trust Mortgage and Bond Fund showed excellent growth and consistently high yields in 1977. Based on a weighted average, annual income per unit in 1977 was 10.15% compared to 9.76% in 1976. Income is distributed or reinvested on a quarterly basis. If reinvested the effective yield would have been 12.8% for 1977. Units of the Fund are redeemable on short notice at any branch office making

them an ideal investment for all types of investors including Registered Retirement Savings Plans, smaller Pension Plans and Deferred Profit Sharing Plans. The fund was independently rated as the top performing mortgage fund over the past one and two year periods.

### Automation

By the middle of 1978 the Company will have completed the conversions of its major systems to the in-house computer. This will enable the Company to handle increased future volumes more efficiently and ensure that we will continue to provide our customers with timely and accurate information. Automation has also reduced the amount of routine manual procedures enabling personnel to turn to more interesting and productive work.



### Analysis of Financial Results

#### Asset Growth

Total assets increased by 12% to \$167,284,000. It is Company policy to match as closely as possible the maturities of its investments to its deposits and wherever feasible to lock in interest spreads during the term.

The majority of growth was in mortgages which increased by 12% to \$128,041,000. The Company's preferred share portfolio increased from \$3,462,000 to \$6,460,000. This reflects continued emphasis in purchasing preferred shares of high quality companies with substantial asset and

dividend coverage along with adequate purchase funds, sinking funds or other features ensuring a return of investment within a reasonable time. These shares offer the Company attractive after tax yields and liquidity.

#### Deposit Growth

Guaranteed trust deposits increased by 14% to \$157,357,000. Of the total increase of \$19,483,000, \$6,532,000 (a 20% increase) came from demand deposits and the balance from term deposits.

#### Net Interest Income

Net interest income increased in 1977 to \$3,090,000 from \$2,743,000 in 1976. This was a result of increased volume and an increase in spreads primarily because of reductions in rates at the end of 1976 and early 1977. It should be mentioned that this increase was after deducting provision for doubtful interest on mortgages.

#### Other Revenue

Fees, commissions and other income increased 57% to \$1,389,000 in 1977. The major portion of this increase was related to fees from mortgage banking and administration, and the management of Fedco Mortgage Investment Company and the Federal Trust Mortgage & Bond Fund.

### WARCHESTER INVESTMENTS LIMITED

As mentioned in last year's annual report, the operations of this wholly-owned subsidiary of Federal Trust are gradually being wound down. Although no land sales were completed in 1977, agreements were reached to sell two parcels of land to close in 1978. The net profit on these sales will be reflected in 1978. The cash proceeds will be returned to Federal Trust for investment and the mortgages taken back will provide regular monthly interest return.

To protect its investment the Company acquired in 1977 the 50% held by its partner in a real estate joint venture in Quebec. The project is now substantially completed with

three of the five rental buildings sold at the end of 1977. It is anticipated that the remaining two will be sold in 1978. Provision was made in 1977 for all anticipated losses on this project. These properties are multiple unit residential buildings (MURB's) that have been certified by Central Mortgage and Housing Corporation as falling within Class 32 for capital costs allowance purposes and as such are a very attractive investment for individuals in a high income tax bracket.

The only remaining assets of Warchester after completion of the land sales in 1978 will be three separate parcels of land in various areas in Ontario, the two rental buildings in Quebec, a rental building in Welland, Ontario, and mortgages taken back on previous land sales. All of these assets, except the mortgages, are either for sale or being brought into a position to be sold.

### REALTY CAPITAL GROUP

#### Operating Costs

Salaries and staff benefits increased in 1977 by 17% to \$1,846,000. This reflects increased personnel in the mortgage banking and administration area, a full year's costs of the real estate sales department and general increases in salaries and staff benefits.

Premises expenses only increased by 5% to \$695,000. This reflects the control of these costs and that no new branches were opened in 1977.

Other operating expenses increased by 25% to \$1,338,000. The major factors responsible were duplication of computer costs in running parallel systems, costs incurred to close down real estate sales branches, general volume increases and the effect of inflation on these costs.

It is anticipated that the increase in operating costs in 1978 will be substantially less than in 1977.



## SERVICES & FUNCTIONS

### Savings Accounts

Your interest is calculated on a minimum monthly balance and payable semi-annually.

### Special Savings Accounts

Maintain a minimum balance of \$2,000 and receive a higher rate of interest.

### Chequing Accounts

Earn interest and at the same time write as many cheques as you require for a small service charge.

### Current Accounts

For businesses or individuals who write many cheques and require a monthly statement. Unlike many other companies, we pay interest on this account.

### Guaranteed Investment Certificates

Certificates earn a high rate of interest. Interest may be paid monthly, quarterly, annually, semi-annually or compounded semi-annually to maturity. Certificates are available in amounts of \$500.00 or more for terms from one to five years.

### Fedco Debentures

Debentures are a profitable and secure investment. Interest may be paid monthly, quarterly, annually, semi-annually or compounded semi-annually to maturity. Debentures may be purchased for \$1,000.00 or more for terms from three to five years.

### Short Term Deposits

Available in amounts of \$5,000 and over for periods of 30 to 364 days.

### Mortgage and Bond Fund

Offers the investor liquidity and an opportunity to share in the safe and lucrative first mortgage market.

### Registered Retirement Savings Plans

A means of saving for retirement while deferring taxes. The company offers a number of investment opportunities.

### Registered Home Ownership Savings Plans

A means of saving for a home and reducing taxes. The company offers a number of investment alternatives.

### Consumer and Personal Loans

Life insured loans available to meet the personal requirements of our customers.

### Collateral Loans

On the security of approved stocks and bonds and Trust Company Guaranteed Investment Certificates. Available to corporations, brokers and individuals.

### Mortgage Loans

Available on residential, commercial and industrial properties.

### Mortgage Banking and Servicing

A mortgage service for both individual clients and domestic and foreign institutional investors.

### Real Estate Sales

We will act as realtor in buying and selling industrial, commercial and investment properties.

### Corporate Trust Services

These services include the following: Deferred Profit Sharing Plans, Transfer Agent and Registrar, Dividend paying agent, Custodian of securities.

### Other services:

Personal Investment Management  
Real Estate Management and Appraisals  
Foreign Remittances  
Travellers Cheques  
Money Orders and Drafts  
Safety Deposit Boxes  
Payment of Utility Bills





---

RealtyCapital  
Corp Limited



Federal Trust  
Company

**Federal Trust Tower**

415 Yonge St., Toronto  
864-1720

**Financial Service Branches**

415 Yonge St., Toronto 864-9253  
*Donald B. Irvine*

343 College St., Toronto 961-8247  
*Giuseppe M. Totino*

654 Danforth Ave., Toronto 461-0254  
*Sarantis Castrinos*

2070 Danforth Ave., Toronto 422-1610  
*Andrew Steele*

1850 Eglinton Ave. W., Toronto 789-4341  
*Frank B. DeProfio*

948 St. Clair Ave. W., Toronto 654-4255  
*Giuseppe Ianni*

1224 St. Clair Ave. W., Toronto 652-3555  
*Lou Pernatozzi*

141 Yonge St., Toronto 864-9023  
*David E. Tarrington*

9 Queen St. E., Brampton 453-1460  
*Donald F. Casey*

270 Albert St., Ottawa (613) 238-4886  
*William C. Colby*

800 Niagara St. N., Welland (416) 735-0714  
*William B. Barrow*

**Mortgage Offices**

415 Yonge St., Toronto 864-1720  
*William R. Ryan*

270 Albert St., Ottawa (613) 238-4888  
*Brian Godding*

159 Frederick Street, Kitchener (519) 745-9981  
*Mel J. Hefford*

**Real Estate Sales Branch**

ICI — Head Office — 864-1720  
*Frances L. Conant*



TRUST COMPANIES ASSOCIATION OF CANADA  
L'ASSOCIATION DES COMPAGNIES DE FIDUCIE DU CANADA  
11 ADELAIDE ST. WEST, STE 400  
TORONTO, ONTARIO M5H 1L9  
(416) 364-1207

---



